

STATE OF CONNECTICUT

INSURANCE DEPARTMENT

6444

Testimony of the Connecticut Insurance Department
Before the

The Insurance and Real Estate Committee

Tuesday, February 17th, 2009

Raised Bill 6444 - An Act Concerning Automobile Insurance

The Connecticut Insurance Department would like to provide the following comments regarding Raised Bill 6444—An Act Concerning Automobile Insurance.

Territorial Rating

Connecticut has a strong, open, competitive and stable automobile insurance marketplace as can be witnessed by over 5 years of single digit statewide rate changes. This can be further illustrated by the continued "depopulation" of the Connecticut Assigned Risk Auto Plan for private passenger vehicles. In 2007, there were approximately 1500 cars in the plan out of approximately 2 million registered vehicles. This is a continuing downward trend from previous years when, in 2003, there were approximately 6200 cars in the plan.

Changes in the current territorial rating scheme will increase the rates for rural and some suburban towns and decrease the rates for the highest rated urban towns. Companies may not be willing to write when the pricing does not accurately reflect the risk. The Department believes that any changes in territorial rating may be disruptive to the marketplace and may adversely impact today's very competitive auto market in Connecticut.

Territorial rating allocates losses paid to the territory where the vehicle is principally garaged. Territories with different loss experience will have different rates. The Department verifies that territorial rates have been established in accordance with the Insurance Commissioner's "Memorandum of Decision Declaratory Ruling" dated 12-4-78. A rating territory's change in loss cost is limited to 75% of the change indicated by the territory's own loss experience, with the balance of the change, 25%, based on the overall statewide loss experience. This lowers the loss cost for the territory where the experience is worse than the statewide average and increases the cost where it is better.

Additionally, the Department believes the changes in this legislation may be harmful to consumers as the bill eliminates consumer safeguards currently in place. The Department currently requires companies to flatten general expenses, other acquisition expenses and miscellaneous taxes, licenses and fees. Under the proposal this would no longer be required, but optional. Additionally, companies would be prohibited from flattening producer commissions, premium taxes, underwriting profits and contingencies. This prohibition does not currently exist. General expenses, other acquisition and miscellaneous taxes, licenses and fees should be allocated equally to all policyholders. To allow companies to treat expenses that have been flattened for 30 years, as variable, is a step backwards for consumers and unfairly discriminatory.

Under section 3, the Commissioner would no longer have prior approval over territorial classifications. Without prior approval insurers may divide urban areas into multiple territories. Currently, the department requires companies to file their territorial definitions. Eliminating this requirement would impact the Department's ability to manage how companies define their territories.

The bill would also require each auto insurer to submit a new rate filing on an annual basis. This would have a significant operational impact on the Department as we would have to annually review rate filings from all companies writing private passenger automobile in Connecticut. Finally, the Department's rule making authority should remain optional.

Credit in Underwriting

The Department guidelines for use of Financial History (see attached) requires that credit scores may only be used for new business, companies may NOT order scores on renewals and companies may not decline, cancel or non-renew based SOLELY on an individual's credit score. An additional consumer protection feature under the Department's program is that insurers may not consider the lack of credit history when underwriting risks.

Since 2001, the Department has examined each company's financial history measurement programs for use in underwriting and pricing auto and homeowners insurance. The Connecticut Insurance Department believes that credit-scoring programs comply with Connecticut law, are actuarially justified, and do not unfairly impact any group of Connecticut citizens.

Further, the Department has analyzed the information provided by carriers and has determined that these measurement systems serve as a valuable indicator of future loss experience. Based on information we have seen to date and comments from regulators in other states, the use of financial history measurement programs have made insurance available to more consumers at more competitive (lower) cost. Prohibiting insurers from considering an individual's financial history in underwriting insurance may cause insurance to be less available for some individuals and may increase the cost of insurance for all consumers. The Department does support the requirement in this legislation that no declination, cancellation or non-renewal could be based in whole or in

part on credit. This is consistent with our Financial History Measurement guidelines that have been in effect since 2001.

Finally, we believe it's important to point out that the Insurance Department's Consumer Services Division has had very few complaints from consumers about the use of credit in rating their insurance policy. Since 2001, there have been a total of 11 complaints, with only one complaint being about increased cost due to a low credit score.



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

March 2, 2001

6444
ATTACHMENT
4 PAGES

Re: Guidelines for the Examination of Financial History Measurement Programs for Personal Risk Insurance Underwriting and Rating Plans

Effective March 15, 2001, Financial History Measurement Programs filed with the Insurance Department will be examined for compliance with Connecticut insurance law and the attached guidelines. As a result of a lengthy examination of financial history measurement programs and the experience of such programs in other states, we conclude that they will benefit Connecticut consumers. Certain consumers will benefit through lower insurance rates. Other consumers who have had significant credit events such as bankruptcy or foreclosure should find coverage more available.

Connecticut consumers will be protected by guidelines that are unique to Connecticut. Although they reflect an expansion of existing guidelines, the new financial history program guidelines include specific protections for Connecticut consumers. The use of certain credit characteristics, such as "credit inquiries" is not permitted. Measurement programs may not include disputed credit items, while the dispute is in process with the credit scoring company. The general use of such programs is limited to "new" business. Under the guidelines, companies are required to notify consumers when an adverse decision is made due to the financial history program. The consumer is entitled to a free copy of the credit report from the credit reporting company in such instances.


The guidelines are intended to assist Insurance Department examiners in their review of financial measurement programs for compliance with Connecticut law. They may be used as a checklist for companies preparing filings. Companies are requested to present filing information in a manner that enables examiners to readily determine compliance with the guidelines. This will enable the Department to examine filings efficiently and effectively. The guidelines are subject to revision, as issues come to the Department's attention in the examination of program filings and through complaints from consumers on the use of such programs.

Concerns have been raised recently that some insurers may be attempting to circumvent existing Department guidelines concerning the use of credit scoring and financial history programs. The Department expects compliance with the intent of guidelines, as well as the letter of the guidelines. Appropriate administrative action will be taken against companies which do not comply. If there is a question of compliance, we ask that you review the program with the Department.

Insurers should review existing underwriting programs and financial history measurement programs for compliance with these guidelines. Appropriately revised new and renewal company underwriting guidelines should be filed with the Department. Please call the Property & Casualty Division at 860-297-3867, if you have questions on Financial History Measurement Programs.

Sincerely,

Susan F. Cogswell
Insurance Commissioner

A handwritten signature in cursive script that reads "Walter Bell".

By: Walter Bell, Director
Property & Casualty Division

Connecticut Insurance Department
Guidelines for Examining Financial History Measurement Programs
for Personal Risk Insurance Underwriting and Rating Plans

Chapter 701 of the General Statutes of the State of Connecticut, Personal and Commercial Risk Insurance Rating Practices, governs underwriting and rating programs and prohibits rates or rating plans which result in rates that are unfairly discriminatory. Chapter 705 of the General Statutes of the State of Connecticut, the Connecticut Insurance Information and Privacy Protection Act, governs insurer activity with respect to consumer reports and personal information. Financial history measurement programs use credit report information and credit scoring systems or programs to measure an individual's risk of loss. Financial history measurement programs used to determine eligibility for insurance or the cost of insurance coverage are permitted under Connecticut law, but they must comply with the requirements of Chapter 701 and 705. The following guidelines reflect those requirements. They are intended as a guide for companies and to assist examiners in their examination of such programs for compliance with Connecticut law.

1. Financial history measurement programs used to underwrite or rate risks must be filed with the Department. The filing must include a description of the program, identify the characteristics used in the program from which a measurement is derived, and include the rules and procedures to be used with the program, as well as an explanation of how the measurement program reduces the impact of credit information and public record items over time.
2. Financial history measurement programs may be used only for new business. Financial history measurement programs may not unfairly discriminate among applicants or result in costs that are excessive for the risk assumed. Financial history measurement programs may not penalize an insured for having no credit history. The insurer shall file underwriting criteria with the Department to determine appropriate placement or rating for such insureds. Nothing precludes a company from rating or underwriting on specific credit information, rather than utilizing a financial history measurement program. However, no company shall use both a financial history measurement program and additional specific credit information for an individual policy. Programs may not be used to re-underwrite an existing book of business on renewal. However, financial history measurement programs may be used to underwrite an existing policyholder on an individual risk basis.
3. Documentation must be submitted to demonstrate the correlation between the measurement program and the expected risk of loss.
4. Documentation must be submitted to demonstrate how the financial history measurement program:
 - a. Impacts consumers in urban territories versus non-urban territories.

- b. Impacts consumers based on the consumer's age.
-
- 5. Financial history measurement programs may not use the following characteristics to measure an applicant:
 - a. Number of credit inquiries.
 - b. The consumer's purchase or finance of a specific item (car, house, etc.)
 - c. The consumer's use of a particular type of credit card, charge card or debit card.
 - d. The consumer's total available line of credit.
 - e. Disputed credit information, while the dispute is under review by the credit reporting company.
 - 6. Company rules must provide that a policy may not be declined, canceled or nonrenewed solely due to an adverse credit score or measurement. For purposes of this guideline, an insurer will not be considered to have declined, canceled or nonrenewed a policy, if coverage is available through an affiliated insurer.
 - 7. In the event of an adverse action due at least in part to a credit report or financial history measurement program, the company must: (1) disclose to the consumer that the adverse action was based on the credit report and (2) inform the consumer that he/she is entitled to a free copy of the credit report or information and where it can be obtained. Programs must also provide that a policyholder may request to be re-underwritten on renewal to determine eligibility based on current financial history.

An adverse action includes the consumer being:

- a. Denied coverage or offered restricted coverage.
 - b. Not entitled to a discount or lower rate.
 - c. Given a reduced discount.
 - d. Charged a higher rate.
 - e. Assigned to a higher rate tier or a higher priced company within an insurer group.
 - f. Otherwise being adversely impacted due to the financial history measurement program.
-
- 8. The Department may ask the company to provide a financial history measurement for a set of test examples, reflecting various financial history characteristics.
 - 9. After a company's program is in effect for two years, the company shall submit a report to the commissioner on the use of the program in Connecticut. The report shall include information demonstrating that the program results in rates that are supported by the data, and which are not unfairly discriminatory. The report shall include an analysis of consumer complaints to the company based on the use of financial history, sufficient to identify the basis for the complaint and resulting company action.